GRANGEX AB

PEA confirms robust economics for Sydvaranger – mapping the road to financial close in H2’25

Johan Widmark | 2025-01-24 11:00

With the release of a Preliminary Economic Assessment (PEA) for the restart of the Sydvaranger mine, GRANGEX now has more clarity on the path ahead. Based on a price forecast of USD 106-145 per ton for 2027-2045, total production of 54 million tonnes of 70% ultra-high-grade iron ore concentrate, and all permits in place, the PEA supports a healthy IRR of 47% and a post-tax NPV(8) of USD 925 million. GRANGEX now targets completing a DFS for Sydvaranger by July 2025, achieving financial close in 2025, and commencing first production in early 2027. All in all, we now estimate an rNPV-based fair value for the GRANGEX share at SEK 82 per share, contingent on resolving the obstacles related to power supply at Dannemora and the management successfully raising the funding needed to develop the assets.

Option B: B for Base Case

The PEA outlines two options. The fast-track, low-CAPEX option, A, utilises the existing infrastructure with minor upgrades to enhance mill throughput. Processes will be upgraded to produce DR-grade pellet feed. Option B, which is the base case, assumes the first three years will follow Option A. Thereafter, the Bjørnevatn pit ore will be accessed at the earliest scheduled opportunity, and the crusher will be relocated to facilitate this option. This approach involves starting slower, with gradual investments, to increase capacity and access an additional 35 Mt of iron ore. The PEA presents a lower initial CAPEX than our previous estimate (USD 348m vs USD 515m) but higher total maintenance CAPEX (USD 139m vs USD 66m). OPEX, however, aligns with expectations (USD 62/ton vs USD 61/ton) and reflects a steady-state OPEX (over 15 years) of USD 54/ton. Notably, the earlier model assumed a 68% concentrate grade, while GRANGEX now targets a concentrate product with a FeMag grade above 70%.

Regarding the timeline, Option B includes a four-year construction period (incorporating Option A). Production will begin during the development phase, yielding a total 8.4 Mt of DR-grade concentrate. Steady-state production will commence in Year 5, delivering 3.0 Mtpa of DR-grade concentrate. All in all, the PEA shows a post-tax NPV(8) of USD 9 25m, slightly lower than the previous estimate of USD 1,108m.

Solid fair value support but financing remains an issue

Combined with our post-tax NPV calculation for Dannemora, we now find support for a total NPV attributable to existing shareholders, net of existing Net IB Debt of SEK 322m at the end of Q3, amounting to SEK 1,150m or SEK 82 per share. This value, however, is contingent on management successfully raising the capital needed to advance the projects. While we estimate the full financing requirement to reach USD 665m through a combination of equity and debt, Option B allows GRANGEX to start small, requiring only USD 99m in capital during Year 1. Additionally, our model shows cash flows (excluding CAPEX and financial expenses) of USD 55m in the first three years of operation, which helps ease the pressure on external financing.

Furthermore, we see a fair chance that both Anglo American (which has already committed to supporting the Sydvaranger financing package with USD 50m and could likely contribute more) and the Norwegian government, along with other public agencies, will step up to provide various forms of financial support, along with other conventional and unconventional financing institutions. Such contributions could quickly change the outlook and make the financing target appear less daunting.

GRANGEX AB

Current Price, SEK	9.7
Market Capitalisation (MSEK)	136.0
Number of Shares (Millions)	14.016
Cash (MSEK)	146.5
Net IB Debt (MSEK)	322.4
Enterprise Value (MSEK)	458.3
Market	Nordic SME

Timeline & Value attributable to current sharehoders

	2024		2025		2026		2027	
	H1	H2	H1	H2	H1	H2	H1	H2
Dannemora			Final Investment Decision	Empty water	Initiate construc.		Production start	
Sydvaranger	First Installment of USD 20m		PEA	Updated Feasibility Study	Deferred payment USD 13m and Final Investment Decision		Production start	

	USDM	SEKM		USDM	SEKM
(A) NPV Dannemora Unlevered (8%)	247	2,598	(F) NPV Syndvaranger Unlevered (8%)	985	10,340
(B) New Equity	55	578	(G) Anglo Financing	50	525
(C) New Debt Dannemora	160	1,680	(H) New Equity Sydvaranger	200	2,100
			(I) New Debt Sydvaranger	250	2,625
(D) NPV attributable to GRANGEX (Unl	32	341	(J) NPV attributable to GRANGEX (Unl	785	5,090
Risk adjustment		90%	Risk adjustment		20%
(E) rNPV Dannemora	29	307	(K) rNPV Sydvaranger	97	1,018

		USDM	SEKM
(L) Apaptite project		9	99
(M) Sala Bly		5	50
(N) Total Equity NPV	(E+K+L+M)	140	1,474
Existing Debt		31	322
Implied Equity Value Existing Shareholders GRANGEX, MSEK			1,150
Implied value, per share, SEK			82

Source: Emergers

Power issue at Dannemora

As for Dannemora, GRANGEX has faced challenges regarding power supply, as Vattenfall and Svenska Kraftnät, despite "intensive efforts" from GRANGEX, have not yet confirmed their ability to deliver the necessary power to the mine. This remains a significant concern. Without clarity on this issue, GRANGEX cannot proceed with project financing, which has delayed the procurement process for Dannemora. Considering that public institutions in Sweden are not known for moving quickly—except when imposing regulatory restrictions—there is a risk that this process may be prolonged. As a result, Sydvaranger is now expected to become GRANGEX's first producing mine. For now, we have chosen to delay the timetable for Dannemora by six months in our model.

Financing: A Key Issue to Resolve in H2 2025

The GRANGEX share has struggled to move closer to its fair value, largely due to uncertainties surrounding the company’s future financing needs and the scale of those requirements. While uncertainty around the power supply for Dannemora persists, the PEA for Sydvaranger should provide some basis of confidence for shareholders ahead of the DFS and major financing activities scheduled for late 2025.

Key milestones for investors

We now look forward to:

- Resolution of the power issue at Dannemora
- Final investment decision and commencement of drainage of Dannemora
- Updated DFS for Sydvaranger by mid 2025
- The major capital raise in 2025
- Final Investment Decision for Sydvaranger
- Production start in Dannemora now in 2027

Clearer picture of the balance sheet impact of Sydvaranger

With Sydvaranger now in the books for the first time, Q2 was the first report to shed some interesting light on the details of the deal, and the impact on the balance sheet. The royalty agreements with Anglo American are reported as a financial liability at amortized cost. Royalty payments will be made in line with the delivery and sale of iron ore during the planned production (11 years for Dannemora and 19 years for Sydvaranger), with amortization calculated per ton of ore. An accounting interest is added to the liability, with the interest continuously reported in the income statement. However, no cash flow-impacting interest payment will be made. The same applies to the deferred payment and the loan to Orion, as well as the loan to DNB, where the interest is added to the liability, allowing the company's entire cash position, at SEK 110m at the end of Q3'24, to be used for project development.

Overview of Long-term Debt

SEKm	Q2'24	Q3'24
Royalty Agreement Anglo American	309.6	309.6
Deferred consideration Orion	137.9	137.9
Assumed loan Orion (20% acc. intr.)	246.0	246.0
Assumed loan DNB	48.9	48.9
Other	0.1	0.1
Total	**742.6**	**742.6**
Interest Bearing for NIBD	432.9	432.9
Cash	146.53	110.52
Net IB Debt	**286.4**	**322.4**

Source: GRANGEX, Emergers

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